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ABSTRACT

It has been proposed that much of the financial information provided by higher education institutions is often ill-suited to the needs of planning and management. Most decisionmakers, particularly those at the state and federal levels, have difficulty in relating the financial information provided them to the issues and problem areas they must address. Therefore, the purpose of the Higher Education Finance Manual (HEFM) is to develop formats and procedures for organizing and displaying financial data, maintained in fund accounting terms, to serve the common planning and management needs at the institutional, state, and federal levels. This overview paper is intended to outline the reasons for and methodology employed in the HEFM project and to present that information that is felt to address the common information needs of planning and management at all levels. (Author)

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HIGHER EDUCATION FINANCE MANUAL: AN OVERVIEW

Technical Report 37

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TECHNICAL REPORT 37

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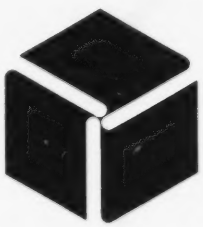

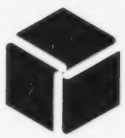

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. . . to help universities and colleges improve both their programs and their management.

. . . to inform the public about the needs of higher education.

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To design, develop, and encourage the implementation of management information systems and data bases including common data elements in institutions and agencies of higher education that will:

- provide improved information to higher education administration at all levels.
- facilitate exchange of comparable data among institutions.
- facilitate reporting of comparable information at the state and national levels.

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HIGHER EDUCATION FINANCE MANUAL

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HIGHER EDUCATION FINANCE MANUAL:

AN OVERVIEW

Technical Report No. 37

Douglas J. Collier

December 1972

National Center for Higher Education Management Systems
at Western Interstate Commission for Higher Education

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TO THE HIGHER EDUCATION COMMUNITY:

The Higher Education Finance Manual Overview Paper is being sent to all higher education institutions and to representatives of those agencies with an interest in higher education finance.

This document was prepared at the National Center for Higher Education Management Systems at the Western Interstate Commission for Higher Education under contract with the U.S. Department of Health, Education, and Welfare, Contract No. OEC-0-71-1381. This preliminary publication does not necessarily reflect an official position of NCHEMS, WICHE, or the Office of Education, and no official endorsement by the Office of Education should be inferred.

The purpose of this document is to report on the results of the work of the first two phases of the Higher Education Finance Manual Project as well as to familarize the higher education community with the methodology being employed in the project. The Overview Paper provides a foundation upon which the final phase of the project is to be completed and is intended to provide a mechanism through which the higher education community might react to the project before it reaches completion. This document is not intended to provide the reader with implementable proposals or to serve as a documentation of the final results of the project.

Higher Education Finance Manual: An Overview has been prepared and reviewed by the Center staff and a task force representing the various interest groups in higher education.

It is intended to convey to prospective users the preliminary financial information needs of higher education planning and management as identified by the Center staff and the task force. We realize that this preliminary work may have omitted important information needs; therefore, your reaction as a potential user of this product is a very important step in the process of producing a viable and realistic Higher Education Finance Manual.

Please circulate this edition within your institution or agency to those who might be in the best position to review it critically and constructively. Any comments or suggestions on how the list of information needs might be improved to better serve the common needs of users at all levels will be appreciated. Written comments may be in the form of letters or as notations in the overview paper returned to us. We request that these comments be submitted no later than March 9, 1973. The suggestions received from throughout the higher education community will be reviewed and incorporated as appropriate in the Higher Education Finance Manual.

Ben Lawrence

Ben Lawrence, Director
National Center for Higher Education
Management Systems at WICHE

ABSTRACT

It has been proposed that much of the financial information provided by higher education institutions is often ill-suited to the needs of planning and management. Most decision makers, particularly those at the state and federal levels, have difficulty in relating the financial information provided them to the issues and problem areas they must address. Therefore, the purpose of the Higher Education Finance Manual (HEFM) is to develop formats and procedures for organizing and displaying financial data, maintained in fund accounting terms, to serve the common planning and management needs at the institutional, state, and federal levels.

This overview paper is intended to outline the reasons for and methodology employed in the HEFM project and to present that information which is felt to address the common information needs of planning and management at all levels. It must be stressed that information needs were considered without regard to data availability or to the costs of data collection, because it was felt that such a constraint would unduly limit a meaningful analysis of information needs. However, the issue of data collectibility and availability will be addressed at length in the third phase of HEFM, discussed briefly at the end of this paper.

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CHAPTER I

INTRODUCTION

Currently financial data from all institutions of higher education are collected as part of the Higher Education General Information Survey (HEGIS) which is administered by NCES. However, a need has been recognized to re-examine the financial data collected through HEGIS from the point of view of its ultimate users. The Higher Education Finance Manual (HEFM) thus considers HEGIS-collected data as well as all financial data needed for planning and management purposes.

The HEFM project is examining information needs and potential user requirements in order to identify financial data needs and to propose formats for displaying such data for specific planning and management purposes. This document represents a progress report on the work of the project to this point.

The first step was the selection of a task force representing all of the various constituencies with an interest in higher education finance as fully as possible. This advisory group will guide the efforts of the NCHEMS staff throughout the project until a finished product is achieved. The Higher Education Finance Manual Task Force consists of the following persons:

Charles Andersen, American Council on Education

Richard L. Beers, Michigan Bureau of the Budget

William Corley, Florida Senate Ways and Means Committee

Arthur L. Cotton, Oberlin College

Charles J. Courey, University of California

William D. Cummins, National Science Foundation

Theodore H. Drews, National Center for Educational Statistics

Donald J. Evans, Prince George's Community College

D. F. Finn, National Association of College and University Business Officers

Loren Gould, Worcester State College

M. Lynden Mannen, U. S. Bureau of the Census

William R. McConnell, N. M. Board of Educational Finance

Manuel Smith, Office for Civil Rights

Harry K. Spindler, State University of New York

Ex Officio

W. K. Boutwell, Florida State University System

F. E. Oliver, University of Michigan

The HEFM project is not intended to produce an accounting manual for higher education. Rather, it is to study the need for financial information at all levels of higher education, identify those areas in which such needs are not being adequately met, and then propose procedures and formats for organizing and displaying financial data so as to meet those needs. Therefore, initial efforts were focused on gathering the information upon which all subsequent work would be based.

Dealing with financial information requires an understanding of some characteristics of information in general.

It is important to recognize that data and information capable of meeting a need are not necessarily synonymous.

In order to form meaningful information, data must be combined and organized in such a way as to shed light on a problem. This requires that the data be categorized in some way.

For the categories to be consistent and understandable, structures for organizing and displaying the data must be developed. Structures may be based upon several criteria, each of which would significantly affect the way the data are maintained and displayed. A structure based upon particular activities would differ greatly from one based upon the outcomes of those activities. Several structures might appear to be applicable in each case. The criteria to be used in selecting a particular structure would be determined by the uses for which the data are intended.

Structures for displaying data in turn require the formulation of procedures for handling the data. These procedures should be well defined and consistent with generally accepted principles for data handling.

The Higher Education Finance Manual, in providing financial information, must address each of these characteristics of information.

The Nature of Financial Information Needs

Historically, the primary need which financial information has been asked to meet in higher education has been stewardship; most reporting for financial information answered the question, "Did you do with the dollars what you promised to do when you accepted them?" This question is typical in any situation wherein private or public monies are accepted for stipulated purposes. Therefore, the need to report this kind of fiduciary information has served as the basis upon which higher education tended to organize and maintain its financial data.

A need for financial information also exists in the area of planning and management, yet it has not to date exerted the same influence upon data collection and maintenance as that exerted by fiduciary needs. Financial data has historically been analyzed and interpreted by those intimately involved with the institution's financial operations in order to minimize the possibility of any misunderstanding on the part of those not as familiar with the specifics of financial operations. This approach allowed institu-

tions to use data organized for fiduciary purposes to also serve planning and management needs. But changes within higher education in the area of planning and management suggest that a reexamination of the procedures and formats for organizing and displaying financial data ought to be conducted in the light of changing needs for financial information.

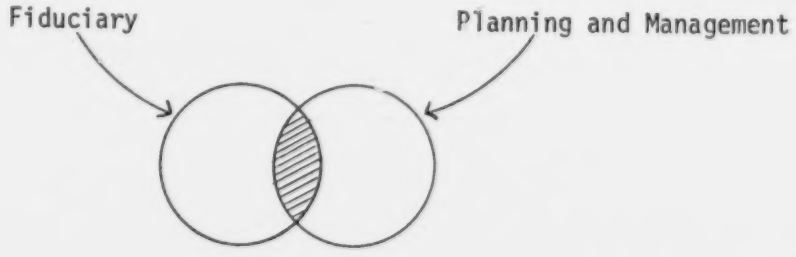
Perhaps one of the most significant changes that has occurred in planning and management, at all levels of higher education, is the broadening of the concept of "financial accountability." Although many institutions have always examined accomplishments versus dollars expended, this was usually done primarily for internal purposes. Most of the concerns of those outside the institution were limited to the fiduciary concept of accountability. However, the management-oriented concept of accountability has now been widely adopted, and the questions now being asked of institutions are "What did you accomplish with the dollars you received?", "Was what you accomplished worth the cost?"

Now, for the first time, institutions are being asked to report in terms of this broadened concept of accountability. Reporting information in this management context, which often entails "program" information, differs significantly from reporting in a fiduciary context. As mentioned earlier, when reporting is required, attempts are made to format and present the information so as to require a minimum of interpretation and explanation. Information designed to serve fiduciary needs in a clear and meaningful way cannot generally be asked to serve planning and management needs at the

same time with the same degree of clarity. And yet this is the situation which often occurs in higher education.

This discussion is not meant to imply that fiduciary needs and planning and management needs require mutually exclusive financial data and formats. In fact, in the conduct of planning and management one must adequately consider institutional fiduciary responsibilities if the decisions are to be truly meaningful. Some financial information is applicable and needed to carry out both functions and this fact should be recognized.

The basic data are generally the same, it is simply a matter of organizing it to serve a different need. The relationship between the two areas can perhaps be pictured in the following way:



The degree of the intersection of the two cannot be known until an adequate analysis of planning and management needs is undertaken. But it is known that such an intersection exists, and it will be one of the tasks of the HEFM project to identify the intersecting and nonintersecting information needs of both areas.

CHAPTER II

CURRENT HIGHER EDUCATION ACCOUNTING SYSTEMS

Fund Accounting

Institutions, whether publicly or privately controlled, are in the nature of a public trust--a characteristic which has greatly influenced the accounting principles and procedures that have been adopted and practiced by the higher education community. The nature of this trust and the obligations of stewardship and accountability have provided the impetus for the development of a particular kind of financial accounting within higher education.

One of the primary factors affecting the development of accounting in higher education is the nonprofit service nature of educational institutions. The need to report sources and uses of monies, rather than profits, is perhaps the single most important factor in explaining the principles of higher education accounting.

The procedures used in higher education accounting are closely related to the characteristics of the different sources and uses of institutional monies. The financial resources of an institution are acquired from diverse sources, each of which may attach different kinds and degrees of restriction upon the uses to which the monies may be put.

In handling the concurrent obligations of stewardship and accountability within the framework of a diversity of resources and restrictions, a body of principles and procedures developed, known as "fund accounting." According to one definition, fund accounting is the set of procedures "by which resources for various purposes are classified for accounting and reporting purposes in accordance with activities or objectives as specified by donors; in accordance with regulations, restrictions, or limitations imposed by sources outside the institution; or with directions issued by the governing board."[1] Fund accounting in some form is the basis of the accounting systems of most higher education institutions today.

A fund is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, a fund balance and changes in the fund balance. To insure observance of the limitations and restrictions placed on the use of resources, separate accounts are maintained for each fund. For reporting purposes, however, funds of similar characteristics are combined into fund groups. Each fund group is treated as a separate fund entity, usually having its own assets, liabilities, fund balance, and, in some cases, its own revenues and expenditures.

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[1] Audits of Educational Institutions, AICPA Committee on College and University Accounting and Auditing, August 1972, p. 9.

CUBA Manual Principles and Procedures

Since 1935 national bodies representative of higher education have published standards for financial accounting and reporting. The third and most recent codification of standards is set forth in College and University Business Administration: Revised (ACE: 1968), often referred to as the CUBA manual. Most institutions are employing these standards to some extent at the present time, with an increasing momentum toward acceptance throughout higher education.

The CUBA manual is the result of a consensus among the nation's college and university business officers. It is intended to present a set of principles and procedures by which institutions can practice fund accounting uniformly. The manual outlines six fund groups as the basis for an institutional accounting system. The recommended fund groups are:

Current Funds

Loan Funds

Endowment and Similar Funds

Annuity and Life Income Funds

Plant Funds

Agency Funds

Specific procedures, based upon the principles of fund accounting, have been outlined for displaying monies within these fund groups. The CUBA manual specifies three primary financial statements for use in displaying institutional financial information:

The Balance Sheet: The purpose of the balance sheet is to present a concise statement of the financial condition of the institution and of the financial resources for which it is responsible at a given date. Assets and liabilities that have like characteristics and are available for common purposes are set forth in the separately balanced fund groups outlined above.

The Statement of Changes in Fund Balances: This financial statement is intended to show, in summary form, the changes that have occurred in the balances of each fund group and subgroup as a result of transactions during the fiscal period. The various parts of the statement show the balance of each fund group and its subgroups at the beginning of the period, additions and deductions during the period, and the balances at the close of the fiscal period covered by the report.

The Statement of Current Funds, Revenues, Expenditures, and Transfers: This statement is used to account for the revenues and expenditures for current operations during a fiscal period, together with transfers from or to the current operating revenues. Additions to the deductions from endowment, term endowment, quasi-endowment, loan, annuity, life income, plant, and agency funds are specifically excluded from this statement.

The CUBA manual provides a set of established and widely accepted principles and procedures for institutional fund accounting. The Higher Education Finance Manual will assume these principles and procedures as the starting point for its efforts.

Impact of AICPA Audit Guide and CUBA Revision

Two groups are currently concerned with the revision of higher education accounting procedures--The Committee on College and University Accounting and Auditing of the American Institute of Certified Public Accountants (AICPA) and the Accounting Principles Committee of the National Association of College and University Business Officers (NACUBO). These two committees have been working together to explore proposed changes in principles and reporting by colleges and universities. The AICPA committee is working on an audit guide intended to assist the independent auditor in examining and reporting on financial statements of nonprofit educational institutions. It will be designed to apply to all nonprofit institutions of higher education including colleges, universities, and community or junior colleges. In August 1972 the AICPA committee issued a preliminary draft of its work, Audits of Educational Institutions. The NACUBO Accounting Principles Committee is currently reviewing and revising the accounting chapters of the CUBA manual. The results of the work of these two groups will have a significant impact upon higher education accounting and must be given appropriate attention in the efforts of the HEFM project.

CHAPTER III

THE ROLE OF HEFM

Analysis: Information Needs - Accounting Systems

This consideration of higher education accounting systems has pointed to the emphasis traditionally placed on organizing and displaying data for fiduciary purposes. The fund groups and the financial statements are based much more on institutional fiduciary reporting requirements than on the needs of planning and management. The formats used for organizing and displaying the data were adequate until institutions were asked to report information for planning and management purposes at levels often far removed from the actual operations of the institution.

Reporting must assume that data will often be interpreted by the user without the benefit of a full explanation. The formatted data must either be accurate and understandable to a user removed from institutional operations or provide some mechanism whereby adequate explanation can be given to the user.

It is apparent that the principles and procedures outlined by the CUBA manual, particularly when viewed in light of the work of the AICPA Audit Guide Committee and of the NACUBO Accounting Principles Committee, adequately serve the need for fiduciary information. The body of principles and procedures outlined in the CUBA manual is generally accepted in practice throughout most of higher education. The movement toward an even wider acceptance

of the manual's recommendations should further enhance its ability to serve the total need for fiduciary information. However, no similar efforts have focused on the needs of planning and management.

A real need has arisen for information capable of providing a broad perspective for financial management. It is not unrealistic to assume that the organization and display of data in a planning and management mode might very well provide more accurate and meaningful information than even the best interpretation of fiduciary data can provide. By designing data formats specifically for planning and management, these functions can be conducted more effectively at all levels of higher education.

Purpose

Given this background, the purpose of the Higher Education Finance Manual can now be stated:

> To provide a manual describing structures, descriptors, and procedures for formatting and displaying financial data specifically to accommodate the common planning and management concerns of higher education at the institutional, state, and federal levels.

In attempting to answer this purpose the project will first focus on identifying and defining the data needed to deal with planning and management at these levels.

Scope

The scope will be restricted initially to those data which can be collected or derived at the institutional level.

It should be emphasized that data collectable at other levels (e.g., state and national) are not excluded by the HEFM purpose statement. Although work in these areas might be pursued in the future, the present scope must be somewhat limited.

It is recognized that there may be constraints imposed by lack of data. These constraints may arise as a result of an inability to retrieve certain information from institutional data systems, or an absence of certain information from institutional data systems, or a necessity to obtain information from sources outside the institutions of higher education. While such constraints may be a current problem, they should not remain so--it is one of the purposes of the project to identify additional data and potential sources. Thus, when considering the information required for decision making at the various levels in this overview paper, no items will be dropped from the list merely because of current unavailability. The problem of availability of data and feasibility of collection will be addressed in Phase II of the project, after information requirements have been established.

To limit HEFM's identification of financial information solely to that which can be derived from present institutional data banks would be a mistake. The advancement of the knowledge of higher education decision makers' financial information needs is one of the more important contributions that can be made by the Higher Education Finance Manual.

CHAPTER IV

HEFM METHODOLOGY

The procedures being used in meeting the objectives of the HEFM project are based upon a consideration of the common information needs of planning and management at the three levels (institutional, state, and national). It was felt that the work of the project could be broken down in the following way:

1. Identify common concerns at all three levels. The need for information and the uses to which it will be put serve as the foundation for the HEFM project. This process should consider present concerns as well as those of the foreseeable future.
2. Identify information needs. Once the common planning and management concerns at the three levels have been identified, it is necessary to determine the information needed to address these concerns. A list of information needs can serve as the basis for defining those data which should be maintained by the institution.
3. Design formats and define data needs. The final step involves the determination of formats for organizing and displaying data in such a way that meaningful information can be provided. This step will require that the list of information needs be examined in order to define the data needs and that procedures for getting data into the formats be outlined.

This overview paper documents the work of the project in completing the first two steps and presents the list of information needs identified to this point. It describes the procedures used in deriving the list of information and discusses some of the implications of the information needs upon the final phase of the project, described in the third step in the outline above.

CHAPTER V

HEFM - PHASE I

COMMON CONCERNS AT ALL LEVELS

The areas of concern common to planning and management at the three levels are of two general types, distinguishable in terms of the way in which information about each is developed.

First, decision makers are continually faced with deciding higher education's role in accomplishing broad social tasks, particularly when it comes to the problem of addressing a particular issue to accomplish a specific objective. Examples of such issues are equal access to higher education, providing for regional manpower needs, and the role of higher education in providing community services. Here traditional higher education financial information provides little help in making decisions or initiating programs.

A second area of concern, for which financial information is needed, involves the knowledge of where higher education's money is coming from and how it is being used. Decision makers want a broader financial overview of the institution's finances than is provided by a fiduciary report. They want to know not only about restricted monies, but also about all monies flowing into and out of the institution. With such information available, decision makers can more adequately handle the diversity of concerns which they face in the planning and management of higher education. Therefore, these two kinds of concerns, decisions related to issues and the need for a broad financial picture or overview, were analyzed in greater detail in order to determine what information would be needed to address each concern.

HIGHER EDUCATION ISSUES AND PROGRAMS

The following procedures were used to identify the issues and programs of common concern at the institutional, state, and federal levels, for which financial information is needed.

Task Force Role

The HEFM Task Force, due to its broad representation, served a major role in the identification of common issues. The task force identified a list of general areas which they felt to be representative of planning and management concerns at all levels, broad areas within which more specific issues and problem areas could be defined. The following areas were identified:

Student access to higher education

Higher education's impact on manpower needs

Research in higher education

Higher education and community service

Economic impact of higher education

Institutional financial health

Diversity of educational offerings

Efficiency, effectiveness, and quality of programs

General societal impacts of higher education

In order to supplement this list and to provide more specific information, additional steps were taken to identify the issues and programs at the institutional, state, and federal levels.

Federal level. For the federal level, an analysis of the most recent major higher education legislation was undertaken in an attempt to evaluate and supplement the task force list of concerns. The Higher Education Bill (Public Law 92-318: "The Education Amendments of 1972") was examined and the various provisions of the bill were analyzed in order to identify the concerns addressed and the programs outlined. The following is a summary of the way in which the programs of the Higher Education Bill were categorized within particular areas of concern:

1. Student access
    a. Student aid
    b. Services for disadvantaged
    c. Community college grants
    d. Developing institutions
    e. Graduate programs
2. Financing of higher education
    a. Commission on Financing of Postsecondary Education
    b. Academic facilities
3. Institutional Financial Health
    a. Emergency aid
    b. General institutional assistance

4. Quality of education
    a. Education professions
    b. Instructional equipment
    c. College libraries
    d. Networks for knowledge
    e. Clinical experience in law
    f. Innovation authority
    g. Busing agreement
    h. Graduate programs
    i. Occupational education
    j. Cooperative education
5. Public service
    a. Community service
    b. Consumers education
6. Governance
    a. Education division of HEW
    b. Institute of education
    c. State planning grants
    d. Land-grant status

State level. For the state level, due to the existence of an NCHEMS project with specific responsibility for this area, a somewhat different approach was used in supplementing the list of concerns identified by the HEFM Task Force. The Statewide Planning for Postsecondary Education project (NCHEMS: Wing) has conducted a study of the issues concerning state-level decision

makers in higher education. The approach utilized was to focus on what Selznick (1957) called "critical decisions"; that is, those decisions that have long-range, fundamental implications for the development of post-secondary education. A tentative five-level hierarchy of objectives for higher education was proposed, in which the successive levels of concerns become more detailed or specific. The following is a summary of this five-level hierarchy:

Level 1. Aggregate objectives and decisions related primarily to setting overall priorities.

Level 2. Objectives and decisions focusing primarily on interactions between educational programs and society.

Level 3. Objectives and decisions focusing primarily on program content and structure in postsecondary education.

Level 4. Objectives and decisions related primarily to internal operations of educational institutions.

Level 5. Objectives and decisions of individuals as they relate to specific educational institutions and programs.

As a starting point for determining statewide needs, the current distribution of decision-making responsibilities in higher education was defined, and current patterns for eight major classes of decisions, as reported by the Education Commission of the States, were outlined. An attempt was made to identify the specific governing unit responsible for each decision. Although it was recognized that precise specification of the responsibilities in a

particular state is a matter for the agencies and institutions in the state to resolve, it was felt that a general idea of the range of interest of each could be obtained and justified.

State agencies, because of their location in the overall organizational framework and the nature of the decisions that must be made, were found to be concerned primarily with objectives and decisions at the second and third levels of the proposed five-level hierarchy. In April and May of 1972, meetings of representatives of state agencies concerned with higher education planning and management were held in conjunction with the statewide planning research project at NCHEMS. The meetings were arranged primarily to identify as specifically as possible the problems and issues that state agencies feel are important and the kinds of information that agencies would like to have available in each case. Four types of agencies (statewide governing boards, statewide coordinating councils, state legislative groups, and state budget offices) were represented, and a separate meeting was held with each group. Despite obvious differences in the specific responsibilities of particular agencies, both within states and across states, it was possible to attain general agreement on both the issues and information relevant to state-level planners and decision makers. The following is a list of the concerns identified by these groups as being important at the state level.

1. Governance
    a. Specification of institutional missions
    b. Organizational and coordinative structures
2. Programmatic decisions
    a. Program size and decisions to add, expand, contract, or eliminate a program
    b. Relations among research, public service, and instruction
3. Growth patterns
    a. Enrollment ceilings and limits on growth rates
4. Student access
    a. Student access policies
    b. Incentives for student enrollment
    c. Establish or close a campus
5. Resource allocation
    a. Construction and review of operating budgets
    b. Capital budgets: build, add to, remodel, or raze a building
6. Financing
    a. Sources of funds for postsecondary education programs
7. Faculty and staff
    a. Compensation policies
    b. Employment, promotion, retirement, and tenure
    c. Work-load policies
8. Student certification
    a. Certification of student competence

Institutional level. Institutional concerns include those identified for the other two levels, but also include many areas for which there is only slight concern, if any, on the part of federal or state decision makers. A total list of institutional planning and management concerns would be much larger than the two lists developed above for federal and state decision makers. Moreover, while the financial information required to deal with a particular area of concern differs from the federal to the state user level, that difference is small when compared to the difference between those two levels and the institutional level. The data required to supply institutions with financial information relevant to their concerns must be much more detailed, for example, than that needed at either of the other two levels.

HEFM's purpose is to serve the "common" planning and management needs at the three levels. This commonality of needs will serve as the boundary for identifying the information to be included in HEFM. Formats and procedures will be designed in such a way as to serve the needs at all three levels. It is presently anticipated that the the greatest flexibility will be required in the area of data detail and that formats can be designed and procedures outlined which will accommodate these differing amounts of data detail. In this way HEFM can provide financial information that will be meaningful in the greatest number of situations at all levels.

Higher Education Issues and Programs: Summary

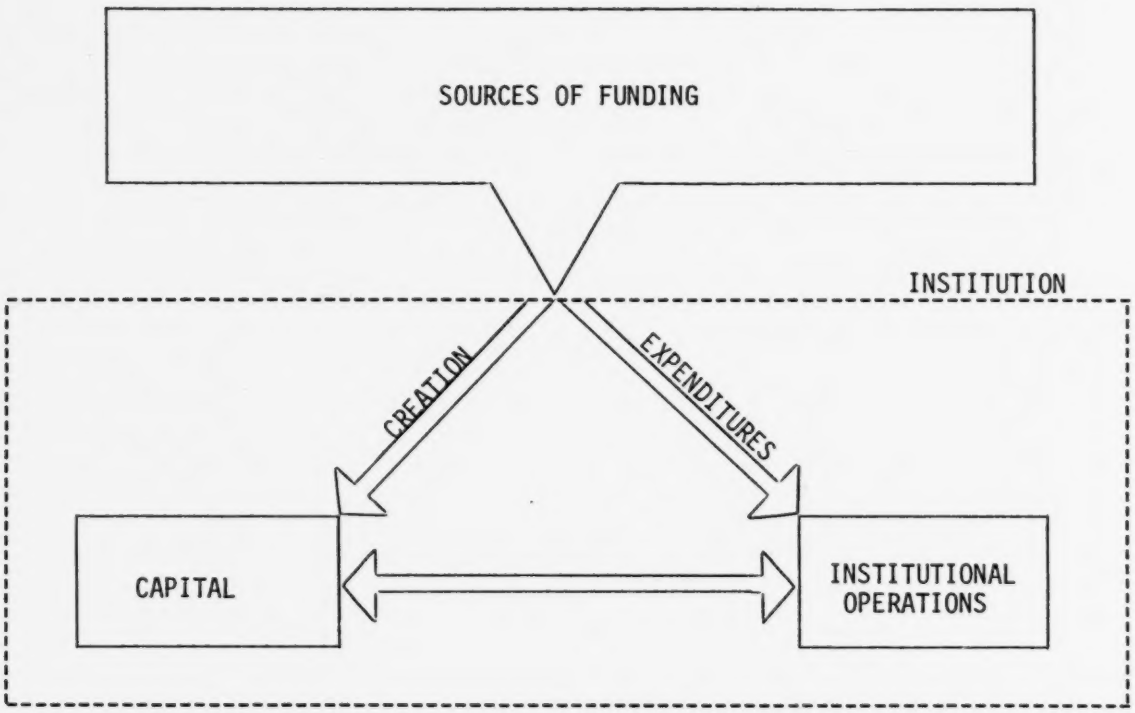
The list of concerns to be addressed by the Higher Education Finance Manual is a compilation of the task force list and the federal- and state-level concerns as they were identified. Institutional needs will be served through level of detail and approach, rather than by identifying separate concerns.

The following are the common areas of concern:

- Student access to higher education
- Higher education's impact on manpower needs
- Research in higher education
- Higher education and community service
- Economic impact of higher education
- Institutional financial health
- Financing of higher education
- Diversity of educational offerings
- Efficiency, effectiveness, and quality of programs
- General societal impacts of higher education
- Resource allocation
- Student certification
- Faculty and staff

FINANCIAL OVERVIEW

The second general type of financial information needed is that which will provide the user with a broad overview of the institution's flow of monies. This financial overview can best be discussed in terms of certain of the relationships of an institution's financial operations. It is known that most higher education institutions are highly dependent upon funding sources outside the institution. Therefore, these sources of funding (monies in) must be examined in relation to their application within the institution (monies out). These monies can be applied either as an expenditure in the context of institutional operations or used in the creation of capital. Institutions finance their operations through the conversion of capital as well. A good example of this is in the application of the "total return concept" to generate income for institutional operations. Although this particular example is more important in the private sector, it points up the need to examine the relationship between capital and institutional operations. These relationships can be shown in the following way.



As portrayed above, monies derived from the various sources of funding can be applied either as expenditures to finance institutional operations or in the creation of capital. Within the institution, capital can be converted and used to finance operations, and if a surplus exists in operations the surplus can be used to create capital. The flow within the institution can go either way between capital and operating programs.

HEFM will attempt to portray these relationships in providing an overview of institutional financial operations. It must be recognized that such an overview will probably depend as much upon the format used to organize and display the data as it does upon the particular information identified with it. Therefore, the format and procedures of this financial overview will constitute a major part of the work of the final phase of HEFM.

CHAPTER VI

HEFM - PHASE II

INFORMATION NEEDS

Information needs include those required to deal with "issues and programs" and those needed to provide a "broad overview" of monies flow. These general categories provide a framework for considering institutional information needs, but they are not sufficient to identify information needs for which specific data requirements can be defined. Therefore, we must first examine the specific kinds of information required, without giving consideration to data availability or cost of data collection. In the third phase of the project, when the questions of data availability and cost are introduced, it is quite possible that some of the information needs described here will have to go unmet.

The following terms are used in defining the information needed to deal with issues and programs.

1. Direct cost: Any cost that is identified specifically with a final cost objective (e.g., lower division agriculture instruction).
2. Full cost: The sum of all direct costs and those support costs allocated to a particular activity. One of the most important full-cost items is "full cost of instruction." This differs from direct cost in that it includes all costs of academic support, student support, and institutional support allocable to the instruction program. A direct cost has no allocated costs associated with it.

3. Support cost: Any costs that are initially assigned to a support cost center either as a result of the account crossover or as a result of a direct cost study. Examples of support costs are utilities, audio/visual services, operations and maintenance, etc.
4. Direct cost to student: Those expenses incurred by a student in attending an institution, including such items as tuition, room and board, books.
5. Target group: A target group defines those persons for whom the benefits of a particular activity are intended. The specification of a particular cost by target group involves aggregating or analyzing the data in such a way as to identify the costs associated with a particular target group for that activity. The parameters to be used in defining target groups will be considered in the next phase of HEFM.
6. Student major: Degree programs.
7. Discipline: The courses of instruction offered by the institution.
8. Program: A stratum in the Program Classification Structure (NCHEMS: Gulko) hierarchy of the major institutional missions and related support objectives. The PCS is based on seven programs.
9. Student level: A reflection of the progress made by a student toward the attainment of a degree in a particular student major. The precise distinctions to be made within student level are to be determined in the subsequent work of the project.

10. Economic entity: Although not necessarily related to a particular governmental entity, this aggregation is intended to reflect any region or entity which is economically affected by a higher education institution.

11. Instruction technology: Intended to reflect such items as computer-assisted teaching, remote classroom broadcasting, programmed instruction, etc.

FINANCIAL OVERVIEW

The relationships seen as constituting the framework within which information needs are to be defined portray the flow of monies into the institution and relate them to the application of monies within the institution. The overview encompasses all institutional monies and includes monies applied to capital funds as well as to the current fund. It is essential to understand how capital funds and/or their earnings are managed or utilized, as well as the management of operating monies.

This kind of financial picture introduces a need for information about the sources of institutional monies and how and where they are applied within the institution. The unrestricted "pool" of monies can be broken down by source initially, allowing the user to understand the effect of sources upon the pool of unrestricted monies. It would, of course, be useless to try to follow this pool of money to its various uses by source. But no problems of this nature should be encountered in following restricted monies to

their destination by source. Therefore, the overview will attempt to relate the restricted monies to their uses in terms of the source of those monies.

The following financial information will be needed in order to provide this flow-of-monies overview:

1. Source of monies: All institutional monies must be categorized by source.
2. Restrictions placed on use: The degree and type of restriction placed on the use of institutional monies must be known. Such restriction categories should differentiate between those monies which are externally "restricted" by the source and those monies which have been "designated" for a particular purpose by the governing body of the institution.
3. Application of monies: The way in which the monies are applied -- to operating programs or in the creation of capital -- must be shown first. Within these two functions, the specific purpose for which the monies were utilized should also be shown.

ISSUE-RELATED INFORMATION

The areas of concern common to all three levels were considered on an individual basis in determining the financial information needs for each. The following is a summary of the way in which each area of concern was considered.

Student Access to Higher Education

Access is primarily a question of "Who shall attend college?" The answer to this question is not the concern of HEFM, but HEFM wants to be able to answer "What will the cost of their attending college be?" and "How will the cost be financed?"

Student access implies not only getting the student into higher education, but also keeping the student in the system. Access, therefore, requires that costs be provided in terms of target groups if they are to be meaningful. The characteristics employed to define target groups will depend upon the particular access question being considered. Target group costs include the costs associated with getting students into the system, keeping them there, and getting them out in such a way that they benefit from the experience.

In order to deal with the question of financing access, information must be known about those monies specifically targeted, or used, for student access. This includes the source of the money and those target groups for which it is intended. This may involve looking at some operating expenditure items, such as financial aid, as special study items, with their own aggregations and breakdowns. The level of detail required will depend upon the particular issue within the student access area being considered.

Financial Information Needs

DIRECT COST OF INSTRUCTION

- By target group

FULL COST OF INSTRUCTION

- By target group

DIRECT COST TO STUDENT (e.g., tuition, fees, room, board)

FINANCIAL AID EXPENDITURES

- By source of funding
- By type (e.g., loan, grant, job)
- By target group

LEVEL OF ABILITY TO CONTRIBUTE

- By target group

Note: Those parameters to be used in defining target groups will be considered in the work of Phase III of HEFM.

Impact on Society's Manpower Needs

It is generally felt that higher education has a significant impact upon the nation's manpower pool and upon satisfying its manpower needs. This impact has been related in most cases to the number of students graduating with specific majors, e.g., engineering, medicine, business, etc. Until such a relationship is disproved or replaced, HEFM will rely upon student major as the link between higher education and manpower concerns. One of the information needs for this concern will therefore be student-major-related data.

Manpower concerns can also be closely identified with student-level considerations, i.e., at what time intervals will students be entering the labor market and with what kind of skills? Therefore, student-major information must be linked with student-level data in order to be truly meaningful.

Financial Information Needs

DIRECT COST OF INSTRUCTION

- By student major
- By student level

FULL COST OF INSTRUCTION

- By student major
- By student level

DIRECT COST OF NONCREDIT INSTRUCTION

- By student major

Note: Student major may not be the best way of collecting this information. It will be one of the tasks of Phase III to determine the best way of analyzing noncredit instruction.

Research in Higher Education

When considering the conduct of research in institutions of higher education, three general questions arise:

1. How much does it cost?
2. What impact would an increase or decrease in research monies have upon institutional finances (and, therefore, institutional operations)?

3. How effectively is research meeting its objectives?

The question of cost of research implies a need for the "full cost" of research activities. Such a need is currently being addressed in the Cost Finding Principles Project (NCHEMS: Topping) and the data needed to derive such a cost will be included within the HEFM project.

The question of institutional financial impact can perhaps best be analyzed in the financial overview discussed earlier in this paper. However, total research revenues, by source and by discipline to which the monies were allocated, would certainly be needed information.

Effectiveness is not something for which financial data can be easily interpreted. However, if expenditure data could be collected by the research objective for which the monies are being expended a first step in the direction of measuring effectiveness will have been taken. This type of information would be much more readily attainable from the funder at the state or national level and would, therefore, not be part of HEFM's institutionally derived information.

Financial Information Needs

FULL COST OF RESEARCH

- By discipline

TOTAL RESEARCH REVENUES

- By source
- By discipline

DIRECT COST OF RESEARCH

- By discipline
- By object of expenditure (e.g., salaries, equipment)

Higher Education and Community Service

Higher education provides community services in many ways. Institutions conduct community education programs (e.g., noncredit courses administered by academic departments for nonmatriculated members of the community), community service programs designed to provide noninstructional services to the community, and cooperative extension services between the institution and outside agencies. Financial data can generally be collected directly for such programs.

There are other financial data, however, which would also be of interest in the consideration of community service. These relate to activities and services specifically targeted to groups in the institution, but from which the community also benefits. Examples of such activities are museums, libraries, and athletic events, whenever they are also available to the general community. It might be valuable to collect financial information for these activities and assign it in some way to the community, proportional to the benefits provided. But such an approach would be highly unrealistic, considering the state of the art. Probably the best that can be provided are the expenditures for those programs which can be identified as providing joint benefits to the community. Such expenditures cannot be "attached to" community service per se, but they can provide valuable input to the decision-making process.

Financial Information Needs

DIRECT COST OF COMMUNITY SERVICE

- By program

DIRECT COST OF PROGRAMS PROVIDING JOINT BENEFITS TO COMMUNITY

- By program

Economic Impact

Many researchers have attempted to quantify and measure the impact of higher education upon the economy; the role of HEFM is to identify the financial information which might be needed by decision makers in dealing with--not measuring--the economic impact of higher education. Two issues which are often included in economic impact considerations have already been dealt with separately: student access and manpower. Even if we look at them in an economic sense this time, rather than simply as they relate to opportunity or labor market needs, their impact upon information would be primarily a reflection of level of detail in each case.

But there is one aspect of economic impact which is not being dealt with as a separate concern. That is the "industry" role of higher education. An institution is similar in many ways to an industry--it employs people, it purchases goods, it pays taxes, etc. It is this industry role for which specific information is needed in this area.

Financial Information Needs

TOTAL OPERATING AND CAPITAL EXPENDITURES FOR THE INSTITUTION

- Aggregated by economic entity (e.g., city, county, state, nation)

  Note: It is recognized that an aggregation of expenditures by state will necessarily include those monies aggregated by the various cities in the state, those by nation will include the states, etc.

- Aggregated by object of expenditure (e.g., salaries, equipment, supplies, etc.)

WAGE RATES

- By type of staff

COST OF INSTITUTION TO COMMUNITY

Note: The data needed to derive this figure have not been identified as yet, but would include such things as taxes paid or monies paid in lieu of taxes, economic multipliers, foregone taxes, etc.

Institutional Financial Health

A determination of the financial health of an institution requires much more than financial information. We must analyze the organization of the institution, its long-range plans, and its internal controls. To determine the efficiency of institutional management, we must look at such nonfinancial data as faculty workloads and student-class dispersions. Finally, there

are certain types of financial analyses which can be used in the evaluation process. The best mechanism for conducting such financial analyses would be the overview of money flows described in a previous section of this paper. Therefore, the information needed for a consideration of financial health would be the information required by this overview.

Financing of Higher Education

The primary questions in this area are, "Who is to pay the various costs of higher education?" and "What are the best mechanisms for doing so?" The decisions to be made are not financial ones, but financial information can serve as valuable input to the decision-making process. In making a decision about who should pay the costs of education, it is useful to know who is paying the costs currently. In order to determine the best ways of financing the costs, information is needed about what is presently being done and what can be done in the future. In many cases, this kind of information cannot be provided at the institutional level, except for sources of institutional monies and types of financing provided by the sources.

Financial Information Needs

INSTITUTIONAL REVENUES AND RECEIPTS

- By source
- By type (e.g., grant, gift, loan, appropriation)

Diversity of Educational Offerings

A commonly expressed objective within higher education is the provision of a wide diversity of educational opportunities from which students can select those best suited to their own needs and desires.

If this description of the objective is accurate, it indicates that student major would be the parameter by which cost information would be collected. This information could then be aggregated in terms of such nonfinancial parameters as type of institution, geographic location, etc.

Financial Information Needs

DIRECT COST OF INSTRUCTION

- By program

Efficiency, Effectiveness, and Quality of Programs

These three measures of higher education programs are perhaps the areas of greatest concern to decision makers at all levels. They are also the most difficult to quantify. Both efficiency and effectiveness require a cost/benefit analysis before any decision can be made. The HEFM project deals only with the cost side of this analysis and therefore cannot provide information sufficient to consider these concepts in a meaningful way.

Quality of educational programs is very much an outcome-oriented concept. Many educators feel that some correlation exists between the quality of programs and the use of innovative instructional technologies. HEFM neither supports nor refutes this contention but will simply state that financial information in this area is both needed and desired.

Financial Information Needs

TOTAL INSTITUTIONAL EXPENDITURES (PCS programs)

- By program

Note: The level of detail to which expenditure data are needed will depend upon what is being considered and for what reason.

DIRECT COST OF INSTRUCTIONAL TECHNOLOGY

Note: The procedures to be used in arriving at this figure have yet to be determined. They will necessarily require that instructional technology be defined more specifically and that ways of deriving the data be determined for the various kinds of instructional technology.

General Societal Impacts

In addition to direct impacts such as manpower, community service, and new knowledge, more intangible and indirect impacts result from higher education. These impacts are primarily in the form of attitudinal changes on the part of those individuals who attend an institution of higher education. They

are believed to include such things as increases in participation in democratic processes, increases in volunteer service, and a greater tolerance for the views and beliefs of others. These traits are often referred to as "good citizen" characteristics. No additional financial information needs will be identified in this area.

Resource Allocation

The decisions made concerning resource allocation vary considerably, even within the same level (national, state, or institutional). They vary as the roles perceived by the various decision-making bodies vary and as the types of allocations being made vary. The level of detail to which the information is needed will depend upon who is making the allocation decision and the purpose for which the monies will be used. No additional information needs beyond those previously identified will be defined for this area.

Faculty and Staff

The primary financial information needed in the area of faculty and staff relates to salaries and benefits. This would include not only the question "Who is getting how much?" but also "What types of compensation are they receiving?"

Financial Information Needs

STAFF COMPENSATION

- By staff type (e.g., administrative, faculty, support)
- By staff rank
- By type of compensation (e.g., salary, benefits)

Student Certification

The actual certification of a student's achievement and competence does not require any kind of financial information. But closely related to certification is the question of the degree and the cost of producing a degree. Although there are many questions to be resolved in determining how to derive the cost of a degree, the information need has been expressed and the data required to derive such a figure can be included in the HEFM project.

Financial Information Needs

FULL COST OF A DEGREE

- By type of degree (associate, bachelor's, master's, doctoral)
- By discipline

INFORMATION NEEDS: SUMMARY

The following summarizes the specific information requirements identified in the analyses of the broad financial overview and issue-related information.

1. Program Classification Structure

The Program Classification Structure (NCHEMS: Gulko) groups campus programs into two major types: primary and support programs. The primary programs contain the activities directly related to the accomplishment of the primary missions of the institution (instruction, research, and public service).

Support programs contain those activities that are necessary or vital for the successful operation of the primary programs. Support programs identified in PCS have been structured in a manner that facilitates the allocation of their costs to the primary programs. Instruction, research, and public service are classified as primary programs. Libraries, administration, and student services are considered part of the support programs. Following is a list of major programs used in the Program Classification Structure.

Primary Programs

Code	
1	Instruction Program
2	Organized Research Program
3	Public Service Program

Support Programs

Code	
4	Academic Support Program
5	Student Service Program
6	Institutional Support Program
7	Independent Operations Program

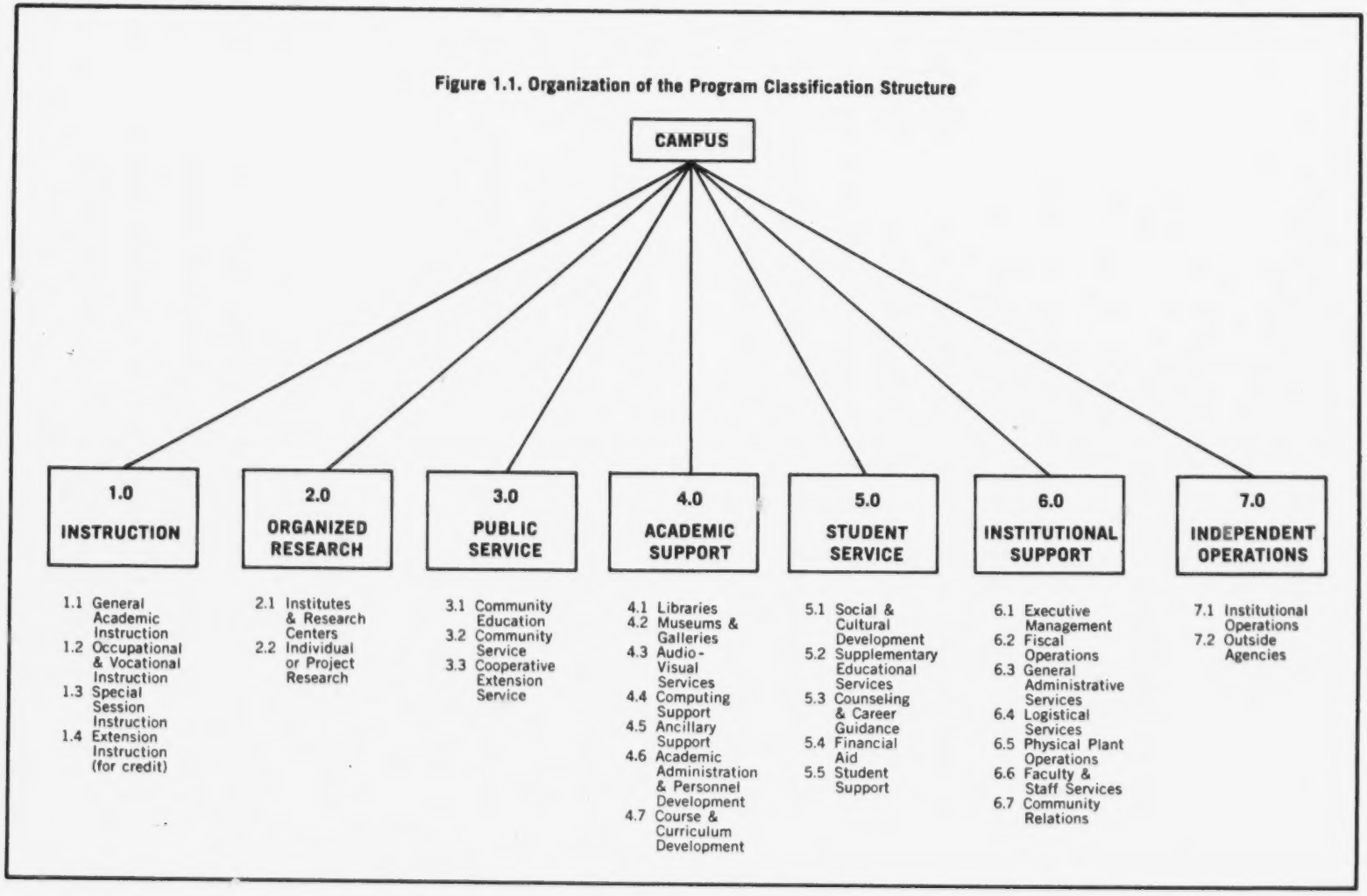
The Higher Education Finance Manual proposes that institutional expenditures be collected at some as yet undetermined level of the Program Classification Structure (PCS). Expenditures for all programs of the PCS are considered important to planning and management, but the detail needed may vary by program as well as by the intended use of the data. (See diagram of PCS for more detailed description.)

2. Cost Information

The following specific cost items were identified:

1. Direct cost of instruction
2. Full cost of instruction
3. Direct cost to student
4. Direct cost of noncredit instruction
5. Full cost of research
6. Direct cost of research
7. Direct cost of community services
8. Direct cost of programs providing joint benefits to community
9. Cost of institution to community

Figure 1.1. Organization of the Program Classification Structure



Source: Warren W. Gulko, Program Classification Structure (Boulder, Colo.: Western Interstate Commission for Higher Education, 1972), p. 19.

10. Direct cost of instructional technology

11. Full cost of a degree

3. Revenue Information

Revenue information should be provided by the source of the revenue. Since HEFM is also concerned with those monies allocated to capital funds which would not be called "revenues," all monies flowing into the institution are to be examined by the source of the funding. These source categories should be "pure," identifying the source only. These sources can then be differentiated to reflect the restrictions placed upon the use of the monies. The uses to which the monies are put can be determined by examining their application within the institution and should therefore not be reflected in a source category. The need for type of revenue (e.g., grant, gift, loan, etc.) was also identified in certain instances. The specific categories for type of revenue will be determined in the next phase of the project.

4. Special Analysis Items

Certain information needs were identified which are simply aggregations or analyses of information previously included in one of the above categories of information need. In fact, most of the previously listed information needs also include certain special analysis items.

The following information was seen as requiring special analysis treatment:

Direct Cost of Instruction

- By target group
- By student major
- By student level
- By discipline

Full Cost of Instruction

- By target group
- By student major
- By student level
- By discipline

Financial Aid Expenditures and Revenues

- By source of funding
- By type
- By target group

Direct Cost of Noncredit Instruction

- By student major

Total Research Revenues

- By source
- By discipline

Direct Cost of Community Service

- By program

Direct Cost of Programs Providing Joint Benefits to Community

By program

Total Operating and Capital Expenditures of the Institution

By economic entity

By object of expenditure

Staff Compensation

By staff type

By staff rank

By type of compensation

Full Cost of a Degree

By type of degree

By discipline

CHAPTER VII

PHASE III - DISCUSSION

Phases I and II of the Higher Education Finance Manual project have constructed the foregoing list of financial information commonly needed for planning and management at the institutional, state, and federal levels. A primary purpose of this paper is to present the list for review and comment by all interested parties. The task force requests your reactions to the list and to all of the work on the HEFM project to this point.

The task force would also like to briefly summarize what it believes will be some of the major questions and issues addressed in the third phase of the project. Some of these issues have arisen as a result of the work of Phases I and II, and some are questions which are certain to be faced as work progresses. It should be emphasized that no final decisions have been made in any of these areas and that your input in each area is sought and earnestly requested. The following points are believed to constitute crucial decision areas which must be resolved before arriving at the final version of the Higher Education Finance Manual:

1. Program Classification Structure (PCS). It is considered essential that the Program Classification Structure (NCHEMS: Gulko) be the structure used to organize and display financial data concerning institutional operations, not only because of the need for compatibility with other NCHEMS products, but also because it is felt that the Program Classification

Structure is being accepted on a sufficiently broad basis that its inclusion will aid in the implementation of HEFM proposals. However, the task force feels that certain minor additions must be made to the PCS, particularly regarding its treatment of financial aid and debt service, if it is to adequately provide for the information needs identified by HEFM. It will, therefore, be an important task of Phase III to make the necessary additions to the PCS so that it does in fact provide for the needs of HEFM.

2. HEFM's relationship to fund accounting procedures. One of the conclusions of the earlier phases was that HEFM must be consistent with the principles of fund accounting as practiced in higher education. This is essential if the recommendations of HEFM are to be implemented consistently and uniformly throughout higher education. However, the exact relationship between the procedures of fund accounting and those to be proposed by HEFM have yet to be determined. One example of a decision which must be made concerns the treatment of assets and liabilities. Fund accounting maintains assets and liabilities separately for each fund group and no consolidated balance sheet aggregating all assets and liabilities is provided. There are certainly advantages and disadvantages to each type of balance sheet, and it will be HEFM's job to carefully examine both alternatives in order to determine which approach best serves the needs of planning and management. Other instances may also arise where alternative procedures must be considered.

3. Need for auditability. The degree of auditability needed is certain to be a major question in Phase III. The question of how precise the financial data must be when provided by the HEFM formats is one which must be answered early in the work of Phase III. Is the job of HEFM to provide procedures and formats which are 100 percent auditable to an institution's financial reports, or is a lesser degree of accuracy acceptable for planning and management purposes? Does the degree of "rounding" permissible differ by the level at which the information is being used? No task force decisions have been made concerning these questions, and your input would be invaluable in making such decisions.

4. Application of monies by source. In providing the money flow overview described, the format to be used must be determined. This will constitute a major effort of Phase III. It is presently hoped that a single format can be designed which will portray the total movement of monies. However, it may be necessary to format the movement of capital separately from monies moving into and out of operating programs. No decision can be made about the value or feasibility of either approach until each alternative is developed more fully and tested.

5. Level of detail. Another question still facing the HEFM project concerns the level of data detail required for the various formats to be proposed. Level of detail must be examined not

only in terms of the ultimate needs of the user, but also in terms of feasibility and the cost of collecting and maintaining certain financial data.

6. Feasibility and cost of data collection. One of the major issues to be faced is the feasibility and cost of collecting the data. No consideration of feasibility or cost was involved in compiling Phase I and II information needs, but the issue must certainly be raised in Phase III. It will receive considerable attention as the actual formats and procedures for providing financial information are formulated. The objective will be to provide that information which is essential to planning and management, while minimizing the additional cost and effort on the part of individual institutions.

7. CUBA charts of account. It should be noted that exclusion of any discussion of the CUBA charts of account is not intended to imply that such formats as the Balance Sheet, Statement of Changes in Fund Balance, and Current Fund Expenditures, Revenues, and Transfers are not needed to fulfill the purpose of HEFM. Instead, such statements are viewed as "formats" for displaying data rather than information, and will therefore be considered in Phase III of the project. At that time, the task force must determine what role the CUBA charts of account are to play in the procedures and formats specified by HEFM for planning and management purposes.

8. Data analysis. The question of the role of data analysis in the HEFM project has yet to be determined. It is the feeling of some of the task force members that financial data cannot be defined unless sufficient attention is also given to the ways in which those data are going to be used. Others feel that the HEFM project should stop somewhere short of proposing procedures for analyzing the data and only provide the formats and data needed to do so. A decision will have to be made in this area early in Phase III.

9. Historical and projected data. HEFM formats and procedures should not apply only to historical data. They should also be capable of handling projected data for some time period into the future. It will be the task of the project in Phase III to recognize the differences in data handling for historical and projected data and make adequate provisions (particularly related to the level of detail required) for handling both kinds of data.

10. Postsecondary education. More emphasis in educational planning and management has recently been given to the entire spectrum of postsecondary education. This is particularly true at the federal level and is reflected in recent legislation. As presently constituted, the Higher Education Finance Manual does not deal with vocational-technical schools, proprietary schools, and other institutions which would be included when considering postsecondary education. Perhaps

it will not be possible to deal adequately with this area at all for the present. It cannot be ignored, however, and a decision must be made as to how HEFM will handle it. The decision must then be stated in subsequent documentation so that there will be no misinterpretation of the intent or scope of the HEFM Manual.

11. Related projects and events in higher education finance. It is recognized that while HEFM is in the process of carrying out its own work, various other events will occur which will affect HEFM significantly. Another NCHEMS project, the Information Exchange Procedures (IEP) project, is presently involved in providing formats and procedures for exchanging and reporting information. This project will draw heavily upon the work and recommendations of the HEFM project in the financial area. The HEFM Task Force will, therefore, continuously monitor the work of the IEP project so that both projects will produce supportive and mutually compatible recommendations. The HEFM project must also be aware of the formation of the new National Commission on the Financing of Postsecondary Education and the work that it will be doing in the area of higher education finance. The work of this Commission will have a considerable impact upon the entire higher education community and must, therefore, be considered carefully in determining the recommendations to be proposed by the HEFM project.

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